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HR/OE FOR SALLY CINTRON
WHA/EX FOR JIM ROBERTSON, BILL HALEY

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SUBJECT: Argentine Official Inflation: Allegations of
Continued GoA Manipulation and IMF Request for
"Clarification"

Ref: (A) Buenos Aires 117

(B) 07 Buenos Aires 2371
(C) 07 Buenos Aires 2271

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Summary

1. (SBU) The GoA is reporting "official" January 2008 inflation at 0.9%, well below independent measures of monthly inflation in the 2% range. The international financial press is calling this lowball release a blow to expectations that the Cristina Fernandez de Kirchner (CFK) administration would gradually implement more accurate inflation reporting and work to resolve the controversy over the management of GoA's national statistics agency INDEC. Separately, an INDEC spokesman confirmed that the IMF has asked for "clarification" of INDEC's new inflation calculation methodology, and local media reports that a January 15 letter from the IMF warned Argentina's macroeconomic data may be excluded from its World Economic Outlook if those data fail to meet UN standards.
End Summary.

January "Official" Inflation Said Grossly Understated

2. (SBU) According to GoA National Statistics Bureau INDEC, consumer price inflation (CPI) in January 2008 was 0.9% month-on-month (MoM), well below consensus market expectations of an "official" rate announcement in the 1.2-1.5% and private measures of "true" January inflation the 2% range. The January release left 12-month inflation at 8.2%, the lowest level in two years.

3. (U) Details of INDEC's January CPI data show that the increase in the sub-index tracking the prices of transportation and communication, up 1.9% MoM, was the main driver of January inflation, contributing 0.28% to the headline figure. The increase in this index reflects a roughly 11% hike in the cost of public transportation due to bus, train and subway fare hikes, which weights 6.4% in the CPI basket. Meanwhile, according to INDEC, January food inflation was 0.7% MoM, (7.3% YoY) accounting for 0.24 percentage points in the headline figure. Independent local economists charge that this official food inflation significantly

underestimates "true" January food inflation estimated in the 3.0-3.5% MoM range. Finally, independent economists argue that INDEC's January data includes distortions in seasonal patterns which appear aimed at minimizing headline inflation. Similar distortions have been highlighted by independent economists since January 2007, with seasonal increases in official prices often coming out below values observed in previous years.

IMF Requests Clarification of INDEC CPI Methodology

14. (SBU) An INDEC spokesman confirmed February 7 that the IMF has asked for "clarification" of the new methodology used by INDEC to calculate inflation. According to local media reports (confirmed to EconCouns by the IMF's resident#6rd on February 7 comments in Washington by IMF spokesman Masood Ahmed that "reliable data on key indicators, like inflation, are key to establishing a sound political economy, not just in Argentina but in all nations."

True 2007 Argentine Inflation in 20% Range

15. (SBU) On January 28, INDEC had declared "official" 2007 inflation in the greater Buenos Aires area at 8.5%, private economists' CPI inflation estimates are broadly in the 20% range (Ref A). Dissident staff of INDEC, citing what they term bald-faced GoA manipulation of statistics, announced January 29 that they calculate true 2007 inflation in the Buenos Aires metropolitan area was higher still, in the 22-26% range. The dissident INDEC staff also noted that 2007 food inflation was in the 36-39% range, compared to official food inflation of only 8.6%.

2008 Inflation, Wage Increases Expected in 18-20% Range

16. (SBU) In January reports, JPMorgan and other independent local economists projected prices to surge another 18-20% in 2008. A Di Tella University survey on inflationary expectations shows that the local population expects inflation to reach 22.6% in 2008; their perception of inflation during 2007 was 33%. Inflation during 2008 will be seriously affected by wage increases to be negotiated during the first quarter. The magnitude of such an increase will be a key factor particularly for inflation expectations. Interestingly, INDEC recently announced that the salary index increased 22.2% year-on-year in November, roughly in line with independently calculated true inflation levels. While salaries in the formal private labor market rose 20.1% (y-o-y), wages in the informal private labor market increased 22.3% y-o-y and public workers' salaries jumped almost 28% y-o-y, according to INDEC.

Comment: A Slippery Slope

17. (SBU) INDEC's inflation figures have come under fire since its director was replaced a year ago, with dissident INDEC employees claiming that data have been systematically manipulated to arrive at an official 2007 inflation rate of 8.5%, less than half the rate calculated by private analysts. The international financial press is calling INDEC's lowball official January inflation release a significant blow to expectations that the CFK administration would gradually resolve the controversy over the management of INDEC and implement more accurate inflation reporting. (Prices of GoA inflation-linked bonds fell sharply as a consequence, with the yield on Argentina's benchmark 25 year inflation-linked bond up 26 basis points to 8.3%, the biggest change since November 2007).

18. (SBU) The tarnished credibility of INDEC's CPI inflation statistics has already called into question the reliability of linked GDP growth data (which independent observers argue is likely overstated by a low GDP deflator) as well as poverty and indigence statistics. Should the IMF decide to exclude Argentine inflation from its World Economic Outlook, the credibility of a broader range of GoA macroeconomic data could be called into question.

WAYNE